

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 PM-04 NSC-05 SP-02 SS-15 INR-07 CIAE-00

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FM AMEMBASSY AMMAN

TO SECSTATE WASHDC IMMEDIATE 8757

C O N F I D E N T I A L SECTION 1 OF 3 AMMAN 4136

E.O. 11652: GDS

TAGS: EAID, JO, US, EALR

SUBJECT: GOJ BUDGET CRISIS:USE OF INTERIM QUARTER FUNDS

REF: AMMAN 3895, AMMAN 2696, STATE 195937

1. SUMMARY. MISSION HAS PREVIOUSLY REPORTED GROWING INDICATIONS OF SERIOUS GOJ CASH FLOW/BUDGET CRISIS IN 1976 AND KING HUSSEIN'S DESIRE TO USE INTERIM QUARTER FUNDS TO RELIEVE THIS PROBLEM, IN EVENT THAT THESE FUNDS ARE NOT REQUIRED FOR JORDAN'S ACQUISITION OF HAWK MISSILES. IN SERIES OF RECENT DISCUSSIONS WITH GOJ OFFICIALS, WE HAVE BEEN ADVISED OF THE DETAILS OF THE CURRENT BUDGET PROBLEM. IN ESSENCE, THE GOJ NOW EXPECTS TO HAVE A 1976 BUDGET SHORTFALL OF BETWEEN 19-27 MILLION JD (3 DOLLARS US - 1 JD). THE GOJ, OF COURSE, WOULD PREFER THAT ENTIRE \$60 MILLION IF INTERIM QUARTER FUNDS BE MADE AVAILABLE IN THE FORM OF DIRECT BUDGET SUPPORT. WE, ON THE OTHER HAND, WOULD MUCH PREFER THAT AT LEAST 20 PER CENT OF THESE FUNDS BE ALLOCATED FOR DEVELOPMENT LOANS. THIS DIVISION IS CONSISTENT WITH OUR FY 1976 AND FY 1977 ECONOMIC ASSISTANCE PROGRAMS FOR JORDAN, AND GOJ OFFICIALS HAVE IMPLIED THAT SUCH A SPLIT WOULD PROVIDE SUFFICIENT BUDGET SUPPORT TO ENABLE GOJ TO WEATHER THIS YEAR'S BUDGET PROBLEMS. HOWEVER, WE ARE CONCERNED THAT UNLESS THE GOJ BEGINS TO TAKE SERIOUSLY ITS CHRONIC BUDGET INDISCIPLINE AND CONCENTRATE SERIOUSLY ON DEVELOPMENT AND IMPLEMENTATION OF ITS BUDGET, SIMILAR, AND POSSIBLE UNMANAGEABLE,
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CRISIES MAY DEVELOP IN THE FUTURE. TO ENCOURAGE A

MORE RESPONSIBLE ATTITUDE AND BETTER BUDGETARY PERFORMANCE, WE PROPOSE THAT AMBASSADOR SUGGEST OFFICIALLY (LETTER TEXT PARA 10) TO PRIME MINISTER BADRAN THAT REGULAR INFORMAL DISCUSSIONS BE HELD BETWEEN OFFICERS OF THE MISSION AND GOJ OFFICIALS WHO ARE RESPONSIBLE FOR THE DEVELOPMENT AND EXECUTION OF THE GOJ'S ANNUAL BUDGET. END SUMMARY.

2. AS THE DEPARTMENT IS AWARE FROM THE EMBASSY'S PREVIOUS REPORTING, SYMPTONS OF A SERIOUS GOJ CASH FLOW PROBLEM HAVE BECOME INCREASINGLY APPARENT FOR SOME TIME. DURING THE PAST WEEK, AMBASSADOR AND MISSION OFFICERS HAVE MET WITH JORDANIAN OFFICIALS TO DISCUSS THE DEPT AND NATURE OF THE CURRENT CASH FLOW PROBLEM, PARTICULARLY WITH REGARD TO THE POTENTIAL USE OF US INTERIM QUARTERFUNDS TO ALLEVIATE THE PRESENT STRAIN. FOLLOWING AN INITIAL DISCUSSION BETWEEN AMBASSADOR, AID DIRECTOR AND MISSION OFFICERS WITH THE PRESIDENT OF THE NATIONAL PLANNING COUNCIL, GOVERNOR OF THE CENTRAL BANK AND THE DIRECTOR OF JORDAN'S BUDGET DEPARTMENT, DETAILS OF THE BUDGET CRUNCH WERE PURSUED AT THE TECHNICAL LEVEL. THE FOLLOWING SUMMARIZES THE PRESENT SITUATION -- EXCLUDING PART II, THE DEVELOPMENT BUDGET -- AS IT EMERGED FROM THESE DISCUSSIONS (DETAILS WILL FOLLOW BY AIRGRAM; SEPTTEL HAS ADDRESSED MILITARY BUDGET QUESTIONS IN MORE DETAIL):

1976 CURRENT BUDGET (JD MILLIONS)

ORIGINAL 1976 BUDGET	RE-ESTIMATED 1976 BUDGET
REVENUES	
DOMESTIC REVENUES 107	110
BUDGET SUPPORT 72	44
PL 480 AND USLOANS --	13.5
LOCAL (DEVELOPMENT) LOANS --	1.5
179	169

EXPENDITURES

	ORIGINAL 1976 BUDGET	RE-ESTIMATEE 1976 BUDGET
CURRENT	135.2	144.0
CAPITAL	55.8	61.3

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	191.0	205.3
DOMESTIC BORROWING 000		14
UNCOVERED DEFICIT 12		22.3

IN THE RE-ESTIMATED BUDGET, DOMESITIC REVENUES SHOW A DECREASE OF 15 MILLION JD DUE TO " A SHARP DROP IN PHOSPHATE PRICES", WHICH IS EXCEEDED BY RE-ESTIMATED REVENUES FROM OTHER DOMESTIC SOURCES, PRI-

MARILY CUSTOMS DUTIES AND LAND REGISTRATION FEES. FIVE MILLION JD OF THE TOTAL INCREASE IS ATTRIBUTED TO "SPECIAL EFFORTS" OCCASIONED BY THE CASH CRUNCH. BUDGET SUPPORT HAS DROPPED BY THE ENTIRE AMOUNT ORIGINALLY ESTIMATED IN "OTHER FINANCIAL ASSISTANCE" (I.E. ARAB NON-KHARTOUM, NON-RABAT CASH GRANTS) OF 30 MILLION JD, BY 9 MILLION JD IN US FY 77 FUNDS WHICH HAVE BEEN TRANSFERRED FROM JORDAN'S 1976 TO ITS 1977 BUDGET, AND THE REDUCED BALUE OF KHARTOUM PAYMENTS CAUSED BY THE DEPRECIATION OF THE POUND STERLING, IN WHICH THEY AR MADE. AT THE SAME TIME, THE DIRECT EFFECT OF SOME AID DEVELOPMET AND PL 480 LOANS ON THE BUDGET RESULTS IN AN INCREASE OF 13.5 MILLION UD IN REVENUE AND THE RE-ESTIMATED BUDGET (OPTIMISTICALLY) INCLUDES THE ETIRE \$60 MILLION OF INTERMIM QUARTER FUNDS AS BUDGET SUPPORT. INCREASES IN CURRENT EXPENDITURES RESULT PRIMARILY FROM COST OF LIVING ALLOWANCES TO GOVERNMENT EMPLOYEES, CIVILIAN AND MILITARY. ALTHOUGH CAPITLA EXPENDITUES SHOW A RISE, AN EARLIER RE-ESTIMATE HAD

INCREASE TO 5.5 MILLION JD. THOUGH NOT INCLUDED IN THE REVISED DOCUMENTATION, 10-15 MILLION JD IN "OTHER FINANCAL ASSISTANCE" IS EXPECTED LATER THIS YEAR FROM QATAR AND ABU DHABI. THUS THE ANTICIPATED TOTAL DEFICIT IN THE 1976 PUBLISHEC BUDGET IS NOW RECORDED AT 7-12 MILLION. JD.

3. IN ADDITION TO THE EXPECTED DEFICIT IN THE PUBLI-CIZED BUDGET, TO DATE NO RABAT SUBSIDIES HAVE BEEN RE-CEIVED. IN THE EXPECTATION OF RECEIPTS TOTALING ABOUT 55 MILLION JD, THE JORDANIAN ARMED FORCES OBLIGATED 37 MILLION JD IN ADDITION TO THE MILITARY EXPENDITURES THAT APPEAR IN THE PUBLISHED BUDGET. PRESENTLY SOME
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16-17 MILLION JD IN RABAT FUNDS ARE EXPECTED TO MATERIALIZE FROM ABU DHABI AND QATAR; THERE MAY BE ADDITIONAL MILITARY BUDGET CUTS OF 7-8 MILLION JD; AND THERE IS THE PROSPECT OF USING 2-3 MILLION JD FROM OTHER SOURCES. IN TOTAL, THE BUDGET DEFICIT APPEARS TO BE IN THE RANGE OF 19-27 MILLION JD.

4. IN A RELATED DEVELOPMENT, THE GOVERNOR OF THE CENTRAL BANK HAS INFORMED US THAT THE COUNTRY'S FOREIGN EXCHANGE RESERVES ARE NOW DOWN TO ABOUT 188 MILLION JD AFTER A LONG AND STEADY CLIMB TO THEIR PEAK OF 217 MILLION JD ATTAINED IN MAY THIS YEAR. HE ATTRIBUTED THE DECREASE TO THE FAILURE OF RABAT AND OTHER SUBSIDIES TO MATERIALIZE WHEN EXPECTED. WITH IMPORTS EXPECTED TO RISE CONSIDERABLY AND EXPORTS ONLY SLIGHTLY, HE HOPES THAT FOREIGN EXCHANGE RESERVES WILL REMAIN AT BETWEEN 185-190 MILLION JD BY THE END OF THE YEAR BUT IS READY TO CONSIDER REIMPOSITION OF EXCHANGE CONTROL MEASURES IF THE SITUATION DETERIORATES FURTHER.

5. WE HAVE NO DOUBT THAT THE GOJ IS IN THE MIDST OF A REAL BUDGET CRUNCH, THE GUESSES AND IMPONDERABLES EMBODIED IN THE RE-ESTIMATED BUDGET NOTWITHSTANDING. ASSUMING THAT NO REPEAT NO PART OF THE \$60 MILLION IN INTERIM QUARTER FUNDS WILL BE REQUIRED TO FINANCE JORDAN'S ACQUISITION OF I-HAWK'S, THE GOJ WOULD NATURALLY PREFER THAT THE ENTIRE INTERIM QUARTER FUNDING BE MADE AVAILABLE IN THE FORM OF BUDGET SUPPORT. AS A NEXT BEST
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OPTION, THE GOJ WOULD PREFER A MIX OF MAXIMUM BUDGET SUPPORT WITH DEVELOPMENT LOANS FOR PROJECTS THAT ARE NOW PROGRAMMED FOR FINANCING FROM 1976 CURRENT EXPENDITURES. SUCH DEVELOPMENT LOANS, OF COURSE, ARE A NEAR EQUIVALENT TO DIRECT BUDGET SUPPORT. THE GOJ HAS IDENTIFIED A NUMBER OF PROJECTS, WHOSE TOTAL COST WOULD BE 9 MILLION JD. HOWEVER, THEY ARE UNATTRACTIVE CANDIDATES FOR AID DEVELOPMENT LOANS.

6. A SEPARATE MESSAGE FOLLOWS WITH OUR RECOMMENDATIONS FOR INTER-IM QUARTER DEVELOPMENT PROJECTS. IN SUM, WE PROPOSE A LOAN OF APPROXIMATELY \$10-12 MILLION FOR AQABA GRAIN STORAGE, \$1 MILLION TO FINANCE THE CONTINUED EDUCATION IN THE UNITED STATES OF OUR AUB PARTICIPANTS, AND UP TO \$1.5 MILLION TO HELP RELIEVE THE UNWRA BUDGET (ASSUMING THAT THIS LAST AMOUNT WILL BE REPLACED IN THE FY 77 DEVELOPMENT LENDING/TECHNICAL ASSISTANCE PROGRAM FOR JORDAN BY REDUCTION OF THAT YEAR'S US FUNDING FOR UNWRA BY \$1.5 MILLION). LATTER POINT WAS DISCUSSED BY AMBASSADOR WITH ASSISTANT SECRETARY ATHERTON AT TEHRAN.

7. OUR LATEST EXPERIENCE WITH JORDAN'S CHRONIC BUDGET-ARY CHAOS HAS INCREASED OUR CONVICTION THAT SLOPPY BUDGETARY PRACTICES IN JORDAN HAVE CONTRIBUTED SUBSTANTIALITY TO ITS RECURRENT CASH FLOW AND BUDGET CRISES. WE ARE ALSO CONVINCED THAT SOME ELEMENTS OF THE RE-ESTIMATED 1976 BUDGET WERE INCLUDED FOR THEIR EXPECTED IMPACT ON THE USG AUDIENCE RATHER THAN BECAUSE OF ANY LOGIC INHERENT IN THE EXISTING BUDGET PROCESS ITSELF. THOUGH THERE IS NO WAY OF OBTAINING A FIRM GRASP ON THE CURRENT BUDGET PROBLEM WITHOUT A DETERMINED EFFORT TO PROBE DEEPLY INTO THE REVISED BUDGET DOCUMENT AND THE UNDOCUMENTED EXTRA-BUDGETARY MILITARY EXPENDITURE PROGRAM, WE HAVE RECEIVED INDICATIONS FROM THE GOJ THAT SOMETHING OVER \$40 MILLION IN BUDGET SUPPORT FROM THE INTERIM QUARTER FUNDS WILL BE SUFFICIENT TO ENABLE THE GOJ TO SQUEAK THROUGH THE PRESENT CRISIS. WE ARE CONCERNED, HOWEVER, FOR THE FUTURE. DESPITE A HISTORY OF RECURRENT BUDGET CRISES AND A LONG STANDING PUBLIC COMMITMENT TOWARDS SELF-SUFFICIENCY IN FUNDING AT LEAST CURRENT BUDGET EXPENDITURES FROM DOMESTIC SOURCES OF REVENUE, FOREIGN BUDGET SUPPORT REMAINS VITAL TO THE

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CURRENT BUDGET, AND ONLY VERY LITTLE PROGRESS TOWARDS SELF RELIANCE HAS BEEN ATTAINED. THERE IS SADLY AT THIS TIME NO REASON TO SUPPOSE THAT THE GOJ IS ABOUT TO INITIATE ANY REASONABLE PROGRAM OF BUDGET REFORM. IN FACT, AT A TIME WHEN WE EXPECT THAT INFLATION ALONE WILL INSURE INCREASING CURRENT EXPENDITURE, ALL MEASURES THUS FAR TAKEN TO ALLEVIATE THE IMPACT OF INFLATION HAVE REDUCED THE AMOUNT OF FUNDS AVAILABLE TO MEET BUDGET EXPENSES. AS FOR THE USG PROGRAM OF ECONOMIC ASSISTANCE, BARRING ADDITIONAL WINDFALLS SUCH AS THE INTERIM QUARTER FUNDS, OUR TOTAL PROGRAM MAY REMAIN AT APPROXIMATELY ITS PRESENT ANNUAL LEVEL, BUT IT WILL SHIFT FROM DIRECT BUDGET SUPPORT WHILE JORDAN'S NEEDS TO ACQUIRE FUNDS FOR RECURRING EXPENDITURES WILL BE GROWING.

8. WHILE THERE MAY BE NOTHING WE CAN DO TO ENCOURAGE

REGULARIZATION OF BUDGET SUPPORT FROM ARAB DONORS, WE MAY BE ABLE TO ENCOURAGE INCREASED REALISM IN THOSE ASPECTS OF THE GOJ BUDGETARY PROCESS THAT LAY LARGELY WITHIN GOJ CONTROL. THE ALTERNATIVE MAY WELL BE MORE FREQUENT BUDGETARY CRISES UNSUSPTIBLE TO AD HOC REMEDIES SUCH AS AN INFUSION OF INTERIM QUARTER FUNDS. WE WOULD PROPOSE TO USE THE OCCASION OF THE TRANSFER OF THE BUDGET COMPOONENT OF THE INTERIM QUARTER FUNDING TO INITIATE AN INFORMAL ROLE FOR THE US MISSION IN THE JORDANIAN BUDGETARY PROCESS. WE FULLY REALIZE THAT ANY SUCH ROLE WOULD HAVE TO BE PLAYED WITH EXTREME TACT AS WE WOULD NOT AT ALL WISH THAT OUR INVOLVEMENT IMPLY A RESPONSIBILITY TO REMEDY DEFICIENCIES THAT MIGHT APPEAR IN THE BUDGET NOR WOULD WE SEEK AN INTIMACY WITH THE BUDGET THAT THE GOJ WOULD FIND IMPOSSIBLE TO TOLERATE POLITICALLY. WE WOULD HOPE TO INITIATE A CONSULTATIVE PROCESS BEGINNING WITH THE DEVELOPMENT OF THE ANNUAL BUDGET DOCUMENT FOLLOWED BY REGULAR, ALBEIT INFORMAL, DISCUSSIONS AS THE BUDGET YEAR UNFOLDS. THESE DISCUSSIONS SHOULD FORCE THE GOJ TO TAKE ITS OWN BUDGET MORE SERIOUSLY AND SHOULD ALSO STRENGTHEN THE POSITION OF GOJ PLANNERS WHO ALSO ADVOCATE BUDGET DISCIPLINE. AN UNDERLYING AND UNSTATED IMPLICATION OF OUR CONTINUING DISCUSSIONS WOULD BE THAT THE DEGREE OF SYMPATHY THAT THE USG MIGHT HAVE IN FUTURE BUDGET CRISES WOULD BE

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RELATED TO THE DEGREE TO WHICH SELF-DISCIPLINE AND REALISTIC PLANNING WERE INTRODUCED INTO DEVELOPMENT OF INITIAL AND RE-ESTIMATED BUDGETS.

9. WE SUGGEST THAT ACCOMPANYING ANY TRANSFER OF THE INTERIM QUARTER FUNDS TO THE GOJ AS BUDGET

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SUPPORT, THE AMBASSADOR SEND A LETTER TO PRIME MINISTER BADRAN ADVISING HIM OF THE MISSION'S CONTINUING INTEREST IN ASSISTING THE GOJ BOTH WITH ECONOMIC DEVELOPMENT AND BUDGET PERFORMANCE. THE LETTER WOULD ALSO SUGGEST THAT IN THE INTERESTS OF USG PLANNING FOR OUR FUTURE PROGRAMS, WE WOULD FIND IT USEFUL TO FOLLOW MORE CLOSELY THE DEVELOPMENT AND SUBSEQUENT EXECUTION OF THE GOVERNMENT'S ANNUAL BUDGET. THE OCCASION OF EXTRAORDINARY BUDGET SUPPORT CRISIS SHOULD MAKE OUR SUGGESTION SOMEWHAT LESS UNPALATABLE AND MORE ACCEPTABLE THAN AT ANY FUTURE OCCASION WE CAN FORESEE. WE FEEL THAT A FAILURE TO TAKE ADVANTAGE OF THE PRESENT OPPORTUNITY TO TRY TO ESTABLISH A MEANS BY WHICH WE MIGHT ENCOURAGE RESPONSIBLE BUDGET MANAGEMENT WOULD BE TO INVITE FUTURE BUDGET CRISES WHICH COULD BECOME UNMAMAGEABLE AND ULTIMATELY DEFEAT A MAJOR PURPOSE OF THE ECONOMIC ASSISTANCE WHICH WE HAVE PROVIDED TO JORDAN.

10. THE TEXT OF THE PROPOSED LETTER IS AS FOLLOWS:

QUOTE:

AFTER THOROUGH CONSIDERATION OF THE INFORMATION PROVIDED TO THE EMBASSY BY YOUR GOVERNMENT REGARDING JORDAN'S 1976 BUDGET SITUATION, I HAVE BEEN ABLE TO RECOMMEND THAT THE UNITED STATES MAKE AVAILABLE NOT LESS THAN \$40 MILLION FROM THE 1976 INTERIM QUARTER FUNDS APPROPRIATED FOR JORDAN IN THE FORM OF DIRECT BUDGET SUPPORT DEPENDING UPON THE SATISFACTORY RESOLUTION OF THE PROBLEM OF FUNDING AN AIR DEFENSE SYSTEM FOR
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JORDAN WITHOUT USING THESE FUNDS. AS YOU KNOW, THERE ARE MANY INDIVIDUAL BUT RELATED FACTORS WHICH TAKEN TOGETHER DETERMINE THE NATURE AND LEVEL OF UNITED STATES ECONOMIC ASSISTANCE TO JORDAN. IN THE PRESENT INSTANCE, I WAS PERSONALLY IMPRESSED WITH THE POTENTIALLY SERIOUS CONSEQUENCES OF THE BUDGET PROBLEMS THAT FACE JORDAN.

FRANKLY, MY STAFF AND I WERE SOMEWHAT SURPRISED TO LEARN THE EXACT CAUSES AND EXTENT OF THE BUDGET PROBLEMS THAT HAVE BEEN ENCOUNTERED THIS YEAR. ONLY THE UNEXPECTED AVAILABILITY OF INTERIM QUARTER FUNDS HAS

ENABLED US TO PROVIDE ASSISTANCE TO RELIEVE THE PRESENT STRAINS.

WE, OF COURSE, DO SEE THE ANNUAL BUDGET WHEN IT IS PUBLISHED, AND THE BUDGET BUREAU PROVIDES US PERIODIC CASH FLOW STATESMENT. WHILE USEFUL, THESE DOCUMENTS BY THEMSELVES PROVIDE A RATHE LIMITED UNDERSTANDING OF JORDAN'S BUDGET NEEDS. THIS INFORMATION IF AVAIL- ABLE TO US WELL AFTER WE MUST MAKE OUR PROGRAM DECISION FOR YOUR PARTICULAR BUDGET YEAR, DEFINITIKONS OF BUDGET CATEGORIES CHANGE FROM YEAR TO YEAR, AND THE ASSUMPTIONS UNDERLYING THESE KEY FIGURES ARE NOT ALWAYS CLEAR.

THIS EXPERIENCE HAS LED ME TO CONCLUDE THAT THE BEST INTERESTS OF BOTH OUR GOVERNMENTS WOULD BE WELL SERVED BY FREQUENT AND REGULAR INFORMAL DEISCUSSIONS OF JORDAN'S BUDGET PROCESS AND IMPLEMENTATION. THIS SUGGESTION WAS MADE TO ME BY YOUR PREDECESSOR IN CON- NECTION WITH THE ACCURATE PREDICTION OF MAXIMUM AMOUNTS OF US BUDGET SUPPORT LIKELY TO BE MADE AVAILABLE TO JORDAN DURING FUTURE YEARS. IN ORDER FOR SUCH DISCUSSIONS TO BE OF MAXIMUM MUTUAL BENEFIT, I BE- LIEVE THAT THEY SHOULD START DURING THE PROCESS OF THE DEVELOPMENT OF JORDAN'S ANNAUL BUDGET DOCUMENT AND BE CONTINUED AS THE BUDGET YEAR PROGRESSES. THE GREATER UNDERSTANDING AND APPRECIATEION OF BUDGET DEVELOPMENTS THAT WOULD BE OBTAINED BY THE EMBASSY THROUGH SUCH DISCUSSIONS WOULD ENABLE US TO PREPARE OUR PROGRAMS OF ECONOMIC ASSISTANCE TO JORAN WITH GREATER SENSITIVITY TO YOUR COUNTRY'S REQUIREMENTS AND PROBLEMS.

IF AGGREEABLE, I WOULD LIKE TO PURSUE MY SUGGESTION WITH YOU AT AN EARLY OPPORTUNITY. UNQUOTE.
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11. ACTION REQUESTED.

(A) PROVISIONAL APPROVAL BY THE DEPARTMENT AND AID OF SOMEWHAT MORE THAN \$40 MILLION IN INTERMIM QUARTER FUNDS BEING MADE AVAILABLE AS BUDGET SUPPORT. THE APPROVAL WOULD BE PREDICATED UPON THE SATISFACTORY RESOLUTION BY OTHER MEANS OF THE AIR DEFENSE FUNDING PROBLEM. THE EMBASSY SHOULD BE INSTRUCTED TO CONVEY THIS DECISION TO THE GOVERNMENT OF JORDAN.

(B) APPROVAL OF THE LETTER FROM THE AMBASSADOR TO THE PRIME MINISTER.
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Message Attributes

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